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MONTGOMERY WARD
Eighty-Third Annual Report
Twelve Months Ended
January 31
1955 *1954 Annual Report.*

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Montgomery Ward & Co.

INCORPORATED



Eighty-third Annual Report
Twelve Months Ended
January 31, 1955



Chicago, March 10, 1955

To the Stockholders of

Montgomery Ward & Co.:

The strong financial condition of the company and profitable results from operations are again reflected in the annual report to shareholders for the fiscal year ended January 31, 1955.

Cash and government securities of \$327,215,778 on January 31 were \$34,000,000 more than a year ago. Working capital was approximately \$608,000,000. There was no debt other than current payables. Current assets were 8.4 times current liabilities.

Earnings for the year were \$35,232,600, equivalent to \$5.20 per share of common stock. Cost reductions brought about by improvements in our operation during the year made it possible to maintain about the same margin of profit as the year before.

Sales totaled \$887,336,812 in comparison to \$999,123,379 for the preceding year. As the year progressed, the sales trend strengthened and in January the volume of business exceeded that of a year ago.

In view of the continued earnings and strong financial condition of the company, the quarterly dividend was raised from \$.50 to \$.75 last Fall. Including a \$1.75 extra dividend, the total dividend payment for the year was \$4.00 per share of common stock. In 1953 the company paid \$3.50 in dividends and \$3.00 the year before.

The most serious problem facing your company as the new year begins is the highly publicized campaign of Louis E. Wolfson of Jacksonville, Florida to gain control of the corporation. Attracted by the company's resources, Mr. Wolfson announced last August that he was seeking control of the company, just eight days after he first became a registered stockholder.

A careful study of Mr. Wolfson's business record, together with the fact he made his bid for control

so soon after purchase of his stock, leads to the inevitable conclusion that his campaign is simply a financial venture for the benefit of his backers and himself. We are convinced that the security of investment which you now have would be destroyed if he were placed in control.

Here are some of the factors which lead to this conclusion:

1. In 1946, Mr. Wolfson purchased the St. Johns River Shipyard in Jacksonville, Florida from the United States government for \$1,926,500. This property had cost the government over \$19,000,000. Within a month after acquiring it, he began to sell it piecemeal and made a reported profit of over \$2,000,000. In 1947, a congressional investigation of this deal disclosed these coincidences:
 - a. Mr. Wolfson's bid was just \$292 more than a confidential appraisal made for the Maritime Commission.

- b. Shortly after purchasing the shipyard, an employee of a Wolfson family company paid \$25,000 to a Maritime Commission official who had furnished him information as to the inventory in the shipyard.
- 2. In 1949, following Mr. Wolfson's stated intention not to disrupt the existing management, the Interstate Commerce Commission permitted him to acquire a controlling interest in Capital Transit Company which operates most of the public transportation in Washington, D. C. Within a short time, however, Mr. Wolfson had placed himself and his associates in the key positions and proceeded to pay out large dividends from the funds which had been prudently set aside by the previous management. At the same time he reduced the service to the public but raised fares five times to avoid losing money.
- 3. The Kefauver Crime Committee questioned Mr. Wolfson about his part in financing the successful

campaign of Fuller Warren for governor of Florida. It was disclosed that Mr. Wolfson and two associates agreed among themselves to finance the campaign and that Mr. Wolfson contributed more than \$150,000. One of the associates owned dog race tracks in Florida, and the other was a citrus grower whose partner became chairman of the Florida Citrus Commission after the election.

4. Mr. Wolfson and his associates personally bought control of New York Shipbuilding Corporation in January 1953. Mr. Wolfson was then, as he is now, President and Chairman of Merritt-Chapman & Scott Corporation. Now, just two years later, Merritt-Chapman is offering to exchange its stock for the stock of New York Shipbuilding Corporation. Mr. Wolfson's gain on this exchange as of January 14, 1955 was \$816,000.
5. Since January 1, 1953, New York Shipbuilding Corporation, of which Mr. Wolfson is Chairman, has purchased over \$600,000 worth of materials

from other companies in which Mr. Wolfson and his brothers, Samuel, Cecil, and Saul had substantial interests as stockholders, officers, directors, or partners. Another company, of which Mr. Wolfson's brothers Cecil and Samuel are officers and directors, received commissions on insurance premiums of \$650,000 paid by New York Shipbuilding Corporation during the same period.

6. Devoe & Raynolds Company, a paint manufacturer, of which Mr. Wolfson is Chairman and President, has purchased 40,000 shares of Ward's stock worth over \$3,000,000. At their annual meeting in February Devoe & Raynolds stockholders vigorously protested the use of their company's funds to further Mr. Wolfson's personal ambition to acquire control of Montgomery Ward.
7. New York Shipbuilding Corporation, of which Mr. Wolfson is Chairman, likewise has purchased 6,000 shares of Ward's stock. A stockholders' committee of New York Shipbuilding has filed a lawsuit

against Mr. Wolfson and some of his associates, charging an illegal conspiracy to use the assets of their company to further Mr. Wolfson's campaign to acquire control of Montgomery Ward.

In contrast, the character of your management has been reflected in the accomplishments of the last 24 years during which the assets have been built up to \$721,000,000 including cash of \$327,000,000.

Respectfully submitted,

SEWELL AVERY,

Chairman of the Board

Montgomery

Balance Sheet —

Assets

Current Assets:

Cash	\$ 23,029,279	
U. S. Government securities (short term)	304,186,499	
Receivables—		
Time payment accounts	\$154,790,687	
Other accounts	8,821,884	
	<u>\$163,612,571</u>	
Less—Reserves for doubtful accounts and unearned carrying charge income	16,605,055	147,007,516
Merchandise inventories (priced at the lower of cost or market)		201,290,291
Supply inventories and prepaid catalog costs ..		<u>14,865,903</u>
Total current assets		\$690,379,488

Properties and Equipment (at cost):

Land	\$ 6,741,796	
Buildings, fixtures and equipment	\$ 65,365,315	
Less—Depreciation reserves	<u>43,155,661</u>	22,209,654
Leasehold improvements (less amortization) ...	<u>1,943,639</u>	30,895,089
		<u><u>\$721,274,577</u></u>

Ward & Co.

January 31, 1955

Liabilities and Stockholders' Investment

Current Liabilities:

Accounts payable.....	\$ 29,365,807	
Due customers.....	7,290,767	
Accrued expenses.....	20,043,834	
Federal taxes on income.....	<u>25,749,485</u>	
Total current liabilities.....		\$ 82,449,893

Stockholders' Investment:

Class "A" Stock—

Authorized 205,000 shares of no par value, non-callable,
\$7.00 per share cumulative dividends; issued 201,554
shares, stated at liquidating value..... \$ 20,155,400

Common Stock—

Authorized 10,000,000 shares of no par value; issued
6,502,378 shares, at stated value..... 211,231,385

Earned surplus—representing earnings reinvested in the
business.....

<u>407,437,899</u>	<u>638,824,684</u>
	<u><u>\$721,274,577</u></u>

Montgomery Ward & Co.

Statement of Earnings for the Years Ended January 31, 1955 and 1954

	1955	1954
Net Sales.....	\$ 887,336,812	\$ 999,123,379
Deductions:		
Cost of merchandise sold	\$ 604,932,105	\$ 680,099,705
Wages and salaries	151,148,651	167,623,064
Other expenses—net.....	35,649,306	41,011,483
Rents	10,665,183	11,253,304
Depreciation on buildings and equipment....	3,073,849	3,178,987
Property, social security, and state taxes.....	11,525,118	11,881,663
Total costs and expenses.....	\$ 816,994,212	\$ 915,048,206
Earnings before taxes on income.....	\$ 70,342,600	\$ 84,075,173
Provision for Federal taxes on income.....	35,110,000	42,880,000
Net earnings.....	\$ 35,232,600	\$ 41,195,173

Montgomery Ward & Co.

Statement of Earned Surplus for the Year Ended January 31, 1955

Earned Surplus at beginning of year.....	\$389,377,704
Reserve adjustments applicable to prior years.....	10,247,985
Net earnings.....	<u>35,232,600</u>
Total.....	<u>\$434,858,289</u>
Cash dividends:	
Class "A" stock—\$7.00 per share.....	\$ 1,410,878
Common stock—\$4.00 per share.....	<u>26,009,512</u>
Total.....	<u>\$ 27,420,390</u>
Earned Surplus at end of year.....	<u><u>\$407,437,899</u></u>

Montgomery Ward & Co.

Statement of Money Provided from Operations and its Disposition During the Years Ended January 31, 1955 and 1954

	1955	1954
Money Provided from Operations:		
Net earnings.....	\$35,232,600	\$41,195,173
Depreciation (charged against operations but not paid in cash).....	3,073,849	3,178,987
Reserve adjustments applicable to prior years.....	10,247,985	—
Proceeds from sale of land and buildings.....	<u>282,371</u>	<u>499,056</u>
Total.....	<u><u>\$48,836,805</u></u>	<u><u>\$44,873,216</u></u>

Disposition of Money Provided:

Dividends paid.....	\$27,420,390	\$24,169,201
Additions and improvements to properties and equipment.....	1,079,334	1,799,257
Retained as additional working capital.....	<u>20,337,081</u>	<u>18,904,758</u>
Total.....	<u><u>\$48,836,805</u></u>	<u><u>\$44,873,216</u></u>

Auditors' Certificate

To the Stockholders and Board of Directors,

Montgomery Ward & Co., Incorporated:

We have examined the balance sheet of Montgomery Ward & Co., Incorporated (an Illinois corporation) as of January 31, 1955, and the related statements of earnings, earned surplus, and money provided from operations and its disposition for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had made a similar examination for the year ended January 31, 1954 and previous years.

In our opinion, the accompanying balance sheet and related statements of earnings, earned surplus, and money provided from operations and its disposition present fairly the financial position of the Company as of January 31, 1955, and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
March 7, 1955

Montgomery

Comparative Balance

Assets

	1955	1954	1953	1952
Current Assets:				
Cash	\$ 23,029,279	\$ 23,155,063	\$ 20,991,231	\$ 21,731,453
U. S. Gov't securities	304,186,499	269,987,032	232,713,429	223,921,991
Receivables (net)	147,007,516	161,001,153	173,344,606	153,305,407
Inventories	216,156,194	230,331,261	255,179,527	261,791,504
Total current assets	<u>\$690,379,488</u>	<u>\$684,474,509</u>	<u>\$682,228,793</u>	<u>\$660,750,355</u>
Properties and Equipment (net)	30,895,089	33,171,975	35,050,761	35,894,657
Total	<u><u>\$721,274,577</u></u>	<u><u>\$717,646,484</u></u>	<u><u>\$717,279,554</u></u>	<u><u>\$696,645,012</u></u>

Liabilities and Stockholders' Investment

Current Liabilities:				
Accounts payable and accrued expenses	\$ 56,700,408	\$ 54,451,512	\$ 63,032,077	\$ 62,808,626
Federal taxes on income	25,749,485	42,430,483	50,508,960	58,773,208
Total current liabilities	<u>\$ 82,449,893</u>	<u>\$ 96,881,995</u>	<u>\$113,541,037</u>	<u>\$121,581,834</u>
Stockholders' Investment:				
Capital stock	\$231,386,785	231,386,785	\$231,386,785	\$231,386,785
Earned surplus	407,437,899	389,377,704	372,351,732	343,676,393
Total stockholders' investment	<u>\$638,824,684</u>	<u>\$620,764,489</u>	<u>\$603,738,517</u>	<u>\$575,063,178</u>
Total	<u><u>\$721,274,577</u></u>	<u><u>\$717,646,484</u></u>	<u><u>\$717,279,554</u></u>	<u><u>\$696,645,012</u></u>
Working Capital (current assets less current liabilities)	\$607,929,595	\$587,592,514	\$568,687,756	\$539,168,521

Ward & Co.

Sheets as of January 31

1951	1950	1949	1948	1947	1946
\$ 25,173,757	\$ 24,779,549	\$ 21,151,543	\$ 18,494,248	\$ 13,406,679	\$ 13,123,486
170,419,462	105,435,430	66,990,025	32,653,045	88,065,900	121,277,428
178,680,014	178,299,085	172,323,064	144,089,707	86,446,176	48,599,391
266,168,601	242,165,933	278,548,307	294,544,184	251,171,970	146,003,339
<u>\$640,441,834</u>	<u>\$550,679,997</u>	<u>\$539,012,939</u>	<u>\$489,781,184</u>	<u>\$439,090,725</u>	<u>\$329,003,644</u>
37,426,526	38,405,188	39,861,935	40,259,826	39,364,614	39,654,992
<u>\$677,868,360</u>	<u>\$589,085,185</u>	<u>\$578,874,874</u>	<u>\$530,041,010</u>	<u>\$478,455,339</u>	<u>\$368,658,636</u>
\$ 69,148,452	\$ 61,782,289	\$ 64,368,399	\$ 66,064,485	\$ 59,173,158	\$ 47,509,854
67,081,048	32,403,623	46,477,088	43,261,202	36,760,000	35,508,000
<u>\$136,229,500</u>	<u>\$ 94,185,912</u>	<u>\$110,845,487</u>	<u>\$109,325,687</u>	<u>\$ 95,933,158</u>	<u>\$ 83,017,854</u>
\$231,386,785	\$231,386,785	\$231,386,785	\$231,386,785	\$231,325,697	\$167,125,235
310,252,075	263,512,488	236,642,602	189,328,538	151,196,484	118,515,547
<u>\$541,638,860</u>	<u>\$494,899,273</u>	<u>\$468,029,387</u>	<u>\$420,715,323</u>	<u>\$382,522,181</u>	<u>\$285,640,782</u>
<u>\$677,868,360</u>	<u>\$589,085,185</u>	<u>\$578,874,874</u>	<u>\$530,041,010</u>	<u>\$478,455,339</u>	<u>\$368,658,636</u>
\$504,212,334	\$456,494,085	\$428,167,452	\$380,455,497	\$343,157,567	\$245,985,790

Montgomery

Comparison of Sales, Earnings,

YEAR ENDED JANUARY 31	NET SALES	EARNINGS BEFORE TAXES ON INCOME	FEDERAL TAXES ON INCOME	NET EARNINGS
1955	\$ 887,336,812	\$70,342,600	\$ 35,110,000	\$ 35,232,600
1954	999,123,379	84,075,173	42,880,000	41,195,173
1953	1,084,586,322	95,713,351	46,120,000	49,593,351
1952	1,106,157,077	112,427,330	58,085,000	54,342,330
1951	1,170,461,801	139,299,977	65,140,000	74,159,977
1950	1,084,436,065	78,352,898	30,565,000	47,787,898
1949	1,211,955,909	113,067,076	44,835,000	68,232,076
1948	1,158,674,514	100,865,066	41,815,000	59,050,066
1947	974,256,649	88,652,182	36,370,000	52,282,182
1946	654,778,682	57,632,025	34,700,000	22,932,025
1945	620,968,523	48,495,839	27,210,000	21,285,839
1944	595,932,821	31,722,098	11,045,000	20,677,098
1943	635,006,979	57,092,584	30,655,000	26,437,584
1942	632,708,657	53,226,716	25,875,000	27,351,716
1941	515,910,915	34,418,017	11,390,000	23,028,017
1940	474,882,032	33,660,645	6,650,000	27,010,645
1939	413,961,241	23,664,956	4,020,000	19,644,956
1938	414,090,544	24,710,029	5,500,000	19,210,029
1937	361,297,059	24,818,914	4,620,000	20,198,914
1936	293,042,357	16,527,310	3,000,000	13,527,310

Ward & Co.

Working Capital, and Surplus

EARNINGS PER SHARE OF COMMON STOCK	DIVIDENDS		EARNED SURPLUS	WORKING CAPITAL (CURRENT ASSETS LESS CURRENT LIABILITIES)	COMMON STOCK- HOLDERS' INVESTMENT PER SHARE
	AMOUNT	PER SHARE OF COMMON STOCK			
\$ 5.20	\$27,420,390	\$4.00	\$407,437,899	\$607,929,595	\$95.15
6.12	24,169,201	3.50	389,377,704	587,592,514	92.37
7.41	20,918,012	3.00	372,351,732	568,687,756	89.75
8.14	20,918,012	3.00	343,676,393	539,168,521	85.34
11.19	27,420,390	4.00	310,252,075	504,212,334	80.20
7.13	20,918,012	3.00	263,512,488	456,494,085	73.01
10.28	20,918,012	3.00	236,642,602	428,167,452	68.88
8.86	20,918,012	3.00	189,328,538	380,455,497	61.60
7.83	19,601,245	3.00	151,196,484	343,157,567	55.74
4.12	11,845,172	2.00	118,515,547	245,985,790	50.89
3.81	11,845,172	2.00	125,518,265	232,800,514	48.76
3.69	11,845,172	2.00	116,077,598	220,834,712	46.95
4.79	11,845,172	2.00	106,245,672	208,921,243	45.07
4.97	11,845,172	2.00	87,653,260	187,707,694	41.50
4.14	11,845,172	2.00	72,146,716	171,559,320	38.53
4.91	11,845,172	2.00	60,963,871	160,151,506	36.38
3.50	9,236,598	1.50	45,798,398	148,150,972	33.48
3.41	11,832,663	2.00	35,390,040	137,529,102	31.48
4.12	19,318,175	4.00	28,012,674	130,940,368	29.98
2.65	2,469,036	—	27,131,935	108,573,396	28.46

Montgomery Ward & Co.

Directors

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Vice-President and Secretary

PHILIP R. CLARKE
Chairman of the Board
City National Bank and Trust Company
of Chicago

DAVID A. CRAWFORD
Chairman of the Board
Michiana Products Corporation

GEORGE A. EASTWOOD

PERCY B. ECKHART
Senior Partner
Eckhart, Klein, McSwain & Campbell

EDMUND A. KRIDER
President

C. H. SHAVER
Chairman of the Board
United States Gypsum Company

SOLOMON A. SMITH
President
The Northern Trust Company

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WILLIAM F. OTTERSTROM.....*Controller*
JOHN M. CLARK.....*Assistant Treasurer*
and Assistant Secretary

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J. P. MORGAN & CO. INCORPORATED, NEW YORK, N. Y.

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